SECRET CONTROL
For American Officials Only

WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY OF WAR
HEADQUARTERS, STRATEGIC SERVICES UNIT
CHINA THEATER
APO 907

1 May, 1946.

TO: SAINT, (JJ/2 and DH/5)

FROM: SAINT, (BH/66)

SUBJECT: MONTHLY PROGRESS REPORT, APRIL, 1946.

1. Attached hereto is a copy of the Monthly Progress Report, Counter Espionage Section, for the month April 1946.

Distribution:

2 Washington
1 HQ. & HQ. DET.
2 Shanghai
1 Peking
1 Tientsin
1 Tsingtao

8-2-52

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TO: Mr. H. BEN SMITH,
Chief, Intelligence Section.

PART I ADMINISTRATIVE

A. FINANCIAL STATEMENT

The financial statement will be submitted at a later date under separate cover.

B. CURRENT STATUS

WILLIAM S. CRAWFORD	Chief, China Theater
GLENN D. FIELDS	Deputy Chief
PHILIP P. PRATT	Reports and Intelligence Officer
THOMAS A. BRADY	Chief Clerk

Investigators

GLENN D. EDWARDS
GRANT A. FIELDEN, 1st. Lt.
HARRY HO (attached to Shanghai)
LORENTS R. JORGENSEN, 1st. Lt.
DAVID D. NORTHCUTT
A. C. PINDER
ARMAND I. VALLIERES
ERNEST G. WEIDUL, 1st. Lt.
CHARLES S. WHITEHURST, 1st. Lt.

Stenos

MISS GERTRUDE EBSERT
MISS JACQUELINE E. FAERBER
MISS BETTY JANE HILL
MISS CONSTANCE B. PALMER
MISS BETTY T. OPPENHEIM
MISS MARIE SIMOES
MISS ELEANOR N. STEVENS
MISS HELEN VALERIUS

MONTHLY PROGRESS REPORT -- COUNTER ESPIONAGE SECTION

PEIPING

DENTON BURDICK, Capt.
JAMES A. WALDRON
THOMAS H. WALDRON

TIENTSIN

LAYTON, IRVING S., Capt.
ALBERT W. HENNIG
HARRY D. G. CARROLL

MUKDEN

JAMES R. LUCAS, Capt. (EDWARD O'CONNOR)

TSINGTAO

ELMER STEPHENS, Capt.

Departures

SEYMOUR I. NADLER, Capt.
KENNETH ROMNEY, M/Sgt
WILLIAM G. ROGERS, T/Sgt
ROBERT ENGLEHART, T/4
ROBERT H. McWILLIAMS, T/4
ANDREW V. PUSKAS, T/4

MISS DOROTHY PEARSON
MISS SHIRLEY HARDEN

MRS. MERCEDES JORGE
MISS YVONNE RUFFIO
MISS JENNIE PALMER
MISS SARAH COHEN

Anticipated Departures

MISS DOROTHY ELLIS
MR. EDWARD LEUNG
MISS RENIE YUEN
MISS CONSTANCE PALMER
Capt. DENTON BURDICK
Capt. JAMES LUCAS
Capt. IRVING S. LAYTON
MISS GERTRUDE EBBERT
MISS BETTY T. OPPENHEIM

departures of May report

MONTHLY PROGRESS REPORT -- COUNTER ESPIONAGE SECTION, APRIL 1946

PART II OPERATIONS

A. SHANGHAI

1. DE-ACTIVATION. In accordance with orders, X-2, China, prepared to wind up its operations and was actually well into the execution of those preparations when orders were received to continue operating for an indefinite period. This later development, of course necessitated a rapid change over, both physical and mental, on the part of X-2 personnel, the re-opening of closed cases, and the recall of several investigators who were already at the Port. The X-2 Branch in Shanghai then continued its activities.

PLANS FOR THE FUTURE Placing of X-2 investigators in certain strategic cities in China are being laid and will be carried out as soon as personnel are sent from the U.S. These plans include in particular cities in North China where no coverage is now available due to the shortage of personnel.

2. NEW OFFICES were obtained in the Tower of the Development Building which include the 14th, 15th and 16th floors. This building also houses the offices of the U.S. Forces in China HQ. and thus affords a greater measure of security since M.P.'s are constantly on guard and have been given orders to allow no one above the 14th floor where an X-2 receptionist receives all visitors. Courier service twice daily has been established between the X-2 Office and the SSU Compound where the other branches of SSU are located.

3. SERVICES FOR OTHER AGENCIES were performed as follows:

a. A total of one hundred and twenty visa applications were checked against our files for the American Consulate.

b. Approximately six hundred and six name checks were made for CIS, G-2.

c. Special Agents of CIC average two visits a day for information from X-2 files for their current cases.

d. Four cases were submitted to CID for appropriate action.

e. The 7th Fleet submitted forty-five names for security checks.

f. X-2 submitted four reports to INDIV for dissemination.

g. A total of sixty-nine years imprisonment was meted out to three Japanese gendarmes on the basis of

evidence gathered by X-2 as regards their torture of Filipinos. The Solicitor General and the Special Prosecutor of the People's Court of the Philippines for the past three weeks have availed themselves of X-2 files in preparing cases against ten Filipino collaborators.

h. War Crimes representatives from Tokyo recently visited Shanghai and gathered information relative to Japanese atrocities from X-2 files. Mr. Spangler of the FBI in Tokyo investigating certain American traitors in Shanghai also has been furnished with information from X-2 files.

B. FIELD STATIONS

1. DE-ACTIVATION and the subsequent orders for re-activation resulted in much the same situation as existed in Shanghai for the various field stations. Teams were recalled from Formosa and Canton, and, at present, there is no immediate possibility of sending investigators back to those posts.

2. SERVICES FOR OTHER AGENCIES

a. TIENTSIN checked a total of forty-two visa clearance and made ten investigations for the American Consul in Tientsin. Seventy transportation clearances, Twelve employment checks, and five investigations were made for the U.S. Marine Corps.

b. CANTON Another group of puppets and collaborators were recently arrested in Canton by the Traitor Eradication Commission of Kwantung Province as a result of information submitted by the Canton Detachment. Information concerning War Crimes was turned over to the War Crimes Representatives in Canton.

c. TSINGTAO Station has worked in close cooperation with the 6th Marine Division, G-2 Section in preparing reports on major German personalities in that area and in other counter-espionage cases.

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PART III. INTELLIGENCE

A. GENERAL SUMMARY

1. Major emphasis of counter-espionage work in China has necessarily been placed on Soviet intelligence activities which continue increasing at a rapid rate. Recent information reflects that the Soviet intelligence service in Shanghai is becoming increasingly concerned with whatever liaison and other relationships are maintained by American and Chinese intelligence agencies. White Russian emigrants who have recently become Soviet citizens under the amnesty and citizenship program of the Russian Government offer Soviet intelligence agencies excellent opportunities to penetrate U.S. Army installations where many Russian emigrants are employed. The Chinese intelligence agencies appear to be chiefly interested in Soviet activities in view of the Manchurian situation and reported connections between Chinese Communists and the Soviets. The Bureau of Investigation and Statistics, since the death of Tai Li, has endeavored to strengthen its position and gain more adequate cover. Chinese Communists, on the other side of the Chinese picture, have increased their propaganda and underground intelligence activities.

B. OUTSTANDING REPORTS OF THE MONTH

1. Summary Report on Japanese Intelligence and Related Information on the Island of Formose (Taiwan)

2. Summary report on Soviet activities and organizations in China.

3. Report entitled "GERMAN NATIONALS FOR POSSIBLE REPATRIATION" which lists members of the Nazi Party, Intelligence agents and officials, propagandists, and consular and Embassy officials as they appear in X-2 files was completed and submitted to G-2 and higher authorities for any action they may deem appropriate.

C. DETAILS

1. SHANGHAI

SOVIET

NEW SOVIET CLUB In an effort to solidify Russian opinion and activity in Shanghai the Russians, at the instance of the Soviet Consulate, have organized the Association of Soviet Citizens in Shanghai, which in effect, will supplement and supercede the status of the Soviet Citizens' Club which has been in existence for some time.

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ARREST OF SOVIET CITIZEN A Soviet citizen and member of the Soviet Club in Shanghai was arrested at Kiangwan airfield in possession of classified U. S. Army documents. Although no concrete information has been developed connecting him with Soviet intelligence, several reports have been received from informants stating that he was acting on instructions. One source stated that Major General Roschin, Soviet Military Attache in Chungking, recently came to Shanghai and was profoundly interested in the arrest.

JAPANESE EMPLOYED BY CONSULATE An unconfirmed report states that the Soviet Consulate has employed twenty-five Japanese in its Far East or Oriental Branch.

EMIGRANT-SOVIET RELATIONS The Soviets continue attempting to lay "a cornerstone for better understanding" between local Soviet officials and Russian Emigrant leaders as was witnessed by an affair given by Mr. Ananieff, who is in charge of the Soviet Consul General, Shanghai, for Emigrant leaders during which speeches were made and toasts offerred to that effect.

CHINESE

BIS ACTIVITY During the past month, intercepted messages purporting to be from the Bureau of Investigations and Statistics have continued to show that that organization is mainly interested in Russian activity and Chinese Communist activity. There appears to be closer liaison between the BIS and subsidiary organizations resulting in the arrest of a number of foreign informers and intelligence agents in Shanghai on charges of collaboration.

Evidence was received from intercepted BIS communications that the BIS has penetrated the U. S. Consulate General in Shanghai. An agent with the code name "o25", supposedly has a position in the Consulate and efforts are being made to ascertain the validity of the report and identify the agent.

RE-ORGANIZATION OF BIS

Studies of the successor and a new table of organization of the BIS brought about by the death of Tai Li were completed, as was a survey of the psychology of the BIS and the policies it pursues.

DISSOLUTION OF BIS

There seems to be no intention of dissolving the BIS as per newspaper reports and efforts are being madeto strengthen its position and give it better cover. Action is being taken to despatch Chinese overseas as BIS agents.

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INTERNATIONAL MUNITIONS RING. Some evidence has been uncovered which presumes that there is an international munitions ring attempting to reassert itself in China -- this shows a hookup with the notorious Fritz Mandl and attempts are being made by persons in China to contact him.

INSTITUTE OF INTERNATIONAL AFFAIRS. Wang Ta Chen, Personal Adjutant to Chiang Kai Shek, heads the Institute of International Affairs which is financed by Chiang. The purpose of this organization is to study the political aspects of international problems with the aim of maintaining peace. It is interested in Korea and Manchuria and has sought assistance of Japanese specialists, extending to them protection from the Chinese. It is reported that this organization will send missions to Korea and Manchuria.

CC CLIQUE. Most important of the minor intelligence organizations operating in China is that of the CC Clique, which is composed mainly of voluntary members who do not have the power of arrest and is under the sponsorship of the Chen brothers. Penetration into foreign countries is facilitated by the fact that a great number of its members are businessmen and officials. CC men have penetrated the BIS and vice versa.

CHINESE COMMUNIST

INFILTRATION OF SHANGHAI. It has been reported that Chinese belonging to the Communist Party have infiltrated into Shanghai and have organized an efficient underground which includes in its activities intelligence gathering. Propaganda work is carried on by the newspaper WEN HUI PAO and is backed by the Soviet paper, EPOCH.

LIAISON WITH OTHER COMMUNISTS. Chinese Communists in the Shanghai area reportedly maintain liaison with Russian and Japanese Communist officials. Infiltration into local labor unions continues, and information indicates that an organized gang of pickpockets is in operation for procuring funds and useful documents for the local Chinese Communists.

JAPANESE

PROBLEMS IN SHANGHAI. General Tong of the Japanese Civilian Control Office held a party recently which was attended by Japanese military and naval officers and members of the Self Governing Association. Repatriation, functions of the Association, and maltreatment of Japanese were discussed. Tsuchida, President of the Association, requested better treatment for the Japanese, investigation of the housing situation, and suitable employment for Japanese in China.

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PERPETUATION OF EMPEROR A meeting was held by an organization known as the "Sacrifice Your Life For The Emperor", whose purpose is to generate more respect for the Emperor and destroy all political parties against him. The meeting was held to discuss formation of a society to which capitalists could join, for the preservation of the Shinto religion. This society would assist in propaganda work.

JAPANESE FASCIST UNDERGROUND Certain Japanese plan to cooperate with the Allies, and, at the same time, secretly prepare for the re-establishment of the Japanese Empire. Leaders of this move have a large following. Executed war criminals become heroes. The Japanese underground sponsored by this group plans to create unrest and disorder by cooperating with native rebels. Money to finance activities is obtained by selling personal and military supplies.

ACTIONS BY JAPANESE Contact was established with members of the Cultural Association for Improving Relationships between China and Japan and it is believed that the Japanese are using this organization as a front to establish intelligence men in positions of business in China. The move is headed by a group in Japan.

BRITISH

BRITISH INTELLIGENCE SOURCE Recent reports indicate that Clarke's Inquiry and Protection Agency is possibly a British Intelligence source. Reports reflect that W. G. Clarke, head of the agency, had received certain assignments from the British Government directing activities for that Agency. Background data relative to certain employees of Clarke's Agency has been obtained.

OTHER NATIONALITIES

MINORITY GROUPS Investigations have been started during the month of April concerning the counter-espionage value of the minority groups in Shanghai, concentrating particularly on the Polish, Estonian, Latvian, Lithuanian, and Jewish groups. General surveys of the political situation revealed that these minorities are strongly divided in their pro and anti Soviet beliefs and that the latter group has some good possibilities of being of both short and long range value to counter-espionage activities on the part of the United States.

NAZI IN ARGENTINE EMBASSY The Argentine Ambassador has hired a former German Nazi as commercial counsellor.

INTER-SPANISH RELATIONS Spanish Republicans have split into two warring factions in Shanghai but have done little except to celebrate Spanish Independence Day.

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2. FIELD STATIONS

TIENTSIN

SOVIET

RUMORS OF CONFLICT WITH U.S. About 1 April a memorandum appeared on the special notice board in the Soviet Consulate written and signed by the Acting Consul to the effect that all Russians should immediately cease any speculative talk and rumors of a possible conflict with the U.S. It went on to say that such talk was without basis and certainly not the intention of the Soviet Government.

TREATMENT OF EMIGRANTS IN HANKOW A report from Tientsin states that some officials and active members of the Russian Emigrants Bureau in Harbin have been executed by Soviet troops since the occupation of that area by the Russians. Reliable sources state a goodly number of Russian Emigrants have been returned to Russia from the Harbin area by the Soviets.

TRAINING OF NATIVE AGENTS It is reported that three Chinese have reached Tientsin from Vladivostok via Harbin and are now being boarded at the Soviet Consulate. They are said to be the vanguard of some two or three hundred newly trained agents who have graduated from special schools at Vladivostok and Habarousk. The remainder are said to be still undergoing practical training in Manchuria and are supposed to take part in the forthcoming maneuver reportedly to be held by the Russians there.

INTELLIGENCE ACTIVITIES IN MANCHURIA A report of considerable interest has been submitted from Tientsin describing Soviet intelligence activities in Manchuria with names of leading Soviet intelligence personalities and the commercial firms engaged in intelligence services. During the war the main objectives were to cover the entire area with a close net of agents to creat and maintain its own group in all anti-Soviet activities and so as to be able to counteract and disrupt any anti-Soviet activities and programs. Also, to have its own men wherever possible in government and administrative organizations and thus creat dissatisfaction with the government among the population by impeding the government's functions.

GERMAN

INTELLIGENCE NET IN MANCHURIA A report made by the former head agent of the German Intelligence Service and who operated an agent network for approximately twenty years in Manchuria sets forth his modus operandi and includes his bases and rendevouz. The source claimed that he never knew for which German intelligence agency he worked.

JAPANESE

BLACK DRAGON SOCIETY It is believed that the Japanese Black Dragon Society and affiliated groups in North China had

no espionage functions of importance in that area but were primarily formed to influence politics and government policies. This carries over to the present time and, moreover, as patriotic organizations, have subversive long-range motives for remaining in China. A considerable number have succeeded in this latter respect.

MUKDEN

TREATMENT OF GERMANS Reports from Mukden show that a number of prominent Germans in that area were taken by the Soviet Army presumably to Russian territory. Germans, and particularly Nazi Party members, have received harsh treatment by the Russians in Mukden.

SOVIET ACTIVITIES Soviet activities are covered in a series of reports concerning the situation of Russian Emigrants, various incidents between Russians and the Chinese, the attitude of the local residents to the Russians, the Soviet propaganda line, official Soviet agencies, and in particular, dossiers on NKVD agents operating in the area.

PEIPING

KWANTUNG ARMY INTELLIGENCE SERVICE. The Kwantung Army Intelligence Service activities which was probably the best Japanese intelligence agency on the Asiatic continent, are explained by a ranking officer of that organization who also offers his opinion as to the results obtained in Manchuria. Perhaps most significant of these opinions is that he considered the use of "spy agents" least effective as a method of intelligence gathering and placed a high value on the use of monitoring as a modern technique in intelligence work.

BIS USING JAPANESE INTELLIGENCE UNIT The Tominaga Organization, which during the war was engaged in monitoring Soviet and Mongolian radio traffic, is being used by the Peiping BIS Group in the same capacity, and with few changes in the original staff.

TSINGTAO

Reports have been completed on German nationals, including Nazi Party members and Espionage agents, and firms in the Tsingtao area.

CANTON

CHINESE CE ACTIVITIES A recent report summarizes the up-to-date information concerning the Chinese counter-espionage

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system in Canton, Macau and Hongkong as directed against traitors, collaborators and war criminals. Liaison is maintained with Macau and with Hongkong, and in the latter area extradition procedure has been arranged and is operating.

D. PROPAGANDA

ANTI-AMERICAN

Soviet propaganda agents in Tientsin have been instructed by an official of the Consulate to maintain a policy of friendliness in their dealings with American Service personnel and to sell the Americans on the idea that the Soviets do not desire war -- which is being fostered by the capitalists of America and England.

Anti-American sentiment is growing stronger among Japanese in the Shanghai area as a result of the work of Fascist organizations. Propaganda is spread orally, and recent trials of war criminals serve as a basis. Pro-Chinese sentiment, on the other hand, is increasing and there is even talk of a union with China against Europeans. A policy of appeasement toward America has been re-advocated by certain Fascist leaders in order that Japan may gain her former strength and eventually realize her destiny.

Up to the early part of April in Shanghai an ever increasing campaign to discredit American Army and Navy personnel, and by so doing, to bring discredit upon the U.S. and its foreign policy was conducted chiefly in the Russian press and inspired by TASS. Several hundred members, not all openly, were identified with the local TASS organization. This campaign appears to have slowed down considerably.

OTHER PROPAGANDA

The philosophy of many Japanese professional soldiers has not changed with defeat. A secret document reportedly discovered in Shanghai states that a world revolution is the means of salvation for Japan and that a third World War will occur within ten years. The documents goes on to say that Japan should assimilate both Eastern and Western civilization and then reform the world.

Among rumors being circulated in Tientsin is one concerning the alleged theft or disappearance of some American official mail in Shanghai containing very confidential information. It is said that American authorities are very perturbed and don't know whom to blame, the Soviets or the Chinese Communists.

Soviet propaganda agencies in Tientsin have been combating reports of poor troop discipline in Harbin and Manchuria which resulted in grand scale looting and plundering. The Soviets state that the looting was done by the Chinese Communist 8th Route Army which the Soviets are not able to control.